

COMMONWEALTH OF KENTUCKY

OFFICE OF FINANCIAL INSTITUTIONS

DIVISION OF SECURITIES

www.dfi.ky.gov



CHOOSING A STOCKBROKER

Millions of Americans from all walks of life own shares in America's public companies. Still, investing in the stock market is a complex business. In many cases, a good stockbroker or other financial specialist can be an essential element of success.

You can do many things to establish and maintain a good relationship with a broker; in turn, you will increase the likelihood of realizing your investment goals.

YOUR GOALS

Are you primarily interested in long-term growth, steady income, tax savings, quick profits or some combination of each? Your financial situation is your best guide to choosing an investment.

Growth, through the long-term appreciation of capital, might be your choice if you have good income, or if you are relatively young and are willing to take greater investment risks for larger gains down the road. Conversely, if you are living on a fixed or retirement income, your main goal might be regular income through dividends and interest while protecting your principal.

Various books and financial publications available in the business section of your public library may help you to develop an investment strategy.

Remember that no investment is risk-free and, as a rule, the greater the potential return, the greater the risk. Other questions to ask yourself:

Do you have sufficient cash reserves in a safe place, such as a federally insured savings account, that can be reached easily in an emergency?

Do you have adequate life insurance?

Can you afford to lose the money you plan to invest? You should only invest in securities you understand and only if the risk is within your comfort range.

CHOOSING YOUR BROKER

You need to consider whether you want a full-service or a discount broker. Discount brokerage employees are generally paid a straight salary, and they typically charge lower commissions than their full-service counterparts. Full-service brokers, on the other hand, receive commissions based on the number and size of transactions in your account. Generally, only full-service brokers will recommend specific stocks or investment strategies.

Brokerage services are highly personal, and the quality depends on both the firm and the individual you select. Ask for recommendations from friends who are successful investors, business colleagues, or your lawyer, accountant, banker or other professional whom you trust. Still, someone else's broker might not be suitable for you, given differing financial situations, needs, and philosophies.

On your first visit to a brokerage firm, you may want to meet with the office manager. He may be able to steer you to a broker who's particularly knowledgeable in your areas of interest. When you meet with a broker, treat it as an interview. Don't be intimidated by an impressive office or a fast-paced, smooth, but superficial sales pitch. Ask questions and listen to the answers. No questions are dumb or silly when it comes to understanding how your hard-earned money will be invested.

You may be asked questions about your net worth, employment, annual income, investment objectives, risk tolerance, tax bracket, and depth of investment experience. Don't mistake the line of questioning as an intrusion on your privacy: the broker must know his customer. You can help your broker help you by updating him whenever you experience a significant change in your financial situation or investment goals. The more your broker knows about you, the better recommendations he can make. Take your time in selecting

of mutual trust, respect and understanding. Don't hesitate to ask a question or to say "no" to a recommendation that does not fit your investment strategy.

OTHER STEPS TO TAKE:

When interviewing brokers, ask for:

A brochure that describes the investment options offered by the firm and a list of services provided.

Copies of the firm's specific recommendations over the past year.

A copy of the firm's commission rates. (Active investors may be able to negotiate lower-than-standard rates.)

When a broker recommends a security, it should be based on sound reasoning rather than a hunch or a tip.

The kind of service and the amount of it depends on the rules that you and the broker establish when you open your account. The frequency with which your broker calls should be consistent with the size of your portfolio. For instance, if you own five stocks that are invested for long-term conservative growth, you probably won't need to speak with your broker more than one or two times each year. An account with 20 or 30 growth stocks might require several calls per week.

Make sure that the firm's products, services, recommendations and commissions are compatible with your goals and that the broker you choose will help you reach those goals.

Find out whether the brokerage firm is a member of any national stock exchanges, the National Association of Securities Dealers (NASD) or the Securities Investors Protection Corporation (SIPC). The NASD is a self regulating organization; its members include most broker-dealers in the United States. SIPC was created by Congress to insure the cash and securities of its members' customers in case a member falls into bankruptcy.

Before you deal with any broker, you also may wish to contact the Kentucky Securities Division at 1-800-223-2579. The Division will verify whether the firm and broker are licensed to do business in Kentucky or if they have been disciplined by any regulatory agency.

IF YOU HAVE A PROBLEM:

Most dealings between customers and brokerages are straightforward and trouble free. Sometimes though, problems arise, such as excessive trading called "churning" in your account, unauthorized trading, unsuitable recommendations, or failure to execute trades or deliver securities.

If your broker confirms stock trades that you don't recall approving, call him right away. Erroneous trades usually can be straightened out if they are caught in time. However, if you wait until the mistakenly purchased stock performs poorly, your delay can be used as evidence that you agreed to the trade. Read and understand the monthly or quarterly account statements that you receive from the brokerage.

Be sure that nothing occurs in your account without your permission. If you don't understand something, or if it's inconsistent with your intentions, contact your broker or the brokerage's office manager immediately. Failing there, you should notify the Kentucky Securities Division. Meanwhile, send a letter detailing your problem to the brokerage's Chief Compliance Officer.

If the problem remains unresolved, you may want to pursue arbitration or legal action. Arbitration offers a less costly and generally faster means of resolving your claim than traditional litigation. However, you effectively give up your right to pursue the matter through the court system. The National Association of Securities Dealers and the New York and American stock exchanges, among others, offer arbitration services.

COMMONWEALTH OF KENTUCKY

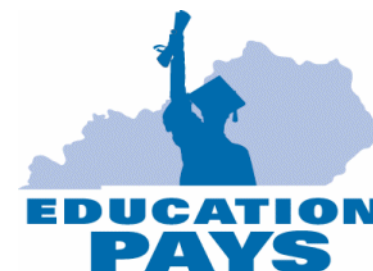
OFFICE OF FINANCIAL INSTITUTIONS

DIVISION OF SECURITIES

1-800-223-2579

request additional quantities of this document at no cost, call or write: 1-800-223-2579, Office of Financial Institutions, Division of Securities, 1025 Capital Center Drive, Suite 200, Frankfort, KY 40601.

All, or a portion, of the material appearing herein originally was published by the Pennsylvania Securities Commission under its Securities Fraud Awareness Program. The material has been reprinted with permission. (2001).



Paid for with state Funds. (2001)